

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Vernon	County Shiawassee
Audit Date 3/31/05	Opinion Date 6/30/05	Date Accountant Report Submitted to State: SEPTEMBER 1, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

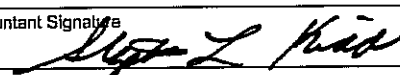
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Lewis & Knopf, P.C.			
Street Address 5206 Gateway Centre - Ste 100	City Flint	State MI	ZIP 48507
Accountant Signature 		Date 8/31/05	

VILLAGE OF VERNON

VERNON, MICHIGAN

AUDIT REPORT FOR THE YEAR ENDED MARCH 31, 2005

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

June 30, 2005

INDEPENDENT AUDITOR'S REPORT

To the Village Council
of the Village of Vernon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, of Village of Vernon, as of and for the years ended March 31, 2005 and 2004. These financial statements are the responsibility of the Village of Vernon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, of Village of Vernon as of March 31, 2005 and 2004, and the respective changes in financial position, and cash flows where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2005 on our consideration of the Village's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. The purpose of that report is to describe the scope of our testing and not provide an opinion on the internal control over financial reporting or on compliance.

The management's discussion and analysis and budgetary comparison information on pages II - X and 15 - 17 are not required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Vernon's basic financial statements. The accompanying other supplementary information, as identified in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf PC
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005

As management of the Village of Vernon, we offer readers of the Village of Vernon's financial statements this narrative overview and analysis of the financial activities of the Village of Vernon for the year ended March 31, 2005.

FINANCIAL HIGHLIGHTS

- A. The assets of the Village exceeded its liabilities at the close of the most recent year by \$1,882,691 (net assets) for 2005.
- B. The Village's total net assets increased by \$67,951 for 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Village of Vernon's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary and additional information in addition to the basic financial statements themselves.

Government-Wide Financial Statements:

The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reports as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. delinquent personal property taxes).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005

Fund Financial Statements: (Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, major street and local street funds, all of which are considered to be major funds.

The Village adopts an annual appropriated budget for its general fund, major street and local street funds. Budgetary comparison statements have been provided for the general fund, major street and local street funds in the required supplementary information.

The basic governmental fund financial statements can be found on pages 3 through 4 of this report.

Proprietary Funds

The Village maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its sewer activity.

The proprietary fund financial statements can be found on pages 5 to 7 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 8 through 14 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information. The supplementary information can be found on pages 18 through 23 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the Village, assets exceed liabilities by \$1,882,691 for the year ended March 31, 2005.

The Village's net assets (24%) reflects its investment in capital assets (e.g., land, building, machinery, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NET ASSETS
MARCH 31, 2005 AND 2004

<u>2005</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets	\$1,072,391	\$371,032	\$1,443,423
Noncurrent Assets	53,588	402,389	455,977
Total Assets	\$1,125,979	\$773,421	\$1,899,400
Current Liabilities	13,121	3,588	16,709
Net Assets			
Invested in Capital Assets – Net of Debt	53,588	402,389	455,977
Restricted	0	247,575	247,575
Unrestricted	1,059,270	119,869	1,179,139
<u>TOTAL NET ASSETS</u>	<u>\$1,112,858</u>	<u>\$769,833</u>	<u>\$1,882,691</u>
<u>2004</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets	\$1,026,371	\$326,423	\$1,352,794
Noncurrent Assets	60,600	418,046	478,646
Total Assets	\$1,086,971	\$744,469	\$1,831,440
Current Liabilities	12,677	4,023	16,700
Net Assets			
Invested in Capital Assets – Net of Debt	60,600	418,046	478,646
Restricted	0	223,407	223,407
Unrestricted	1,013,694	98,993	1,112,687
<u>TOTAL NET ASSETS</u>	<u>\$1,074,294</u>	<u>\$740,446</u>	<u>\$1,814,740</u>

This year as well as last year, the Village is able to report positive balances in all three categories of net assets, both for the Village as a whole, as well as for its separate governmental and business-type activities.

During year ended March 31, 2005, the Village's net assets increased by \$67,951.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005

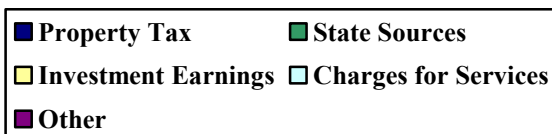
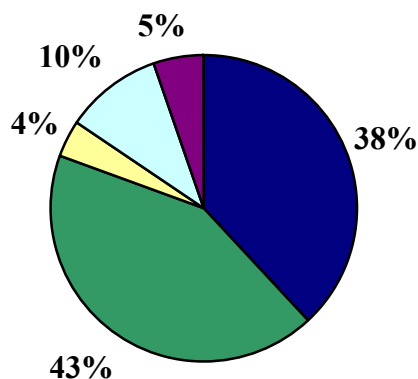
GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2005

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Revenues:			
Program Revenues:			
Charges for Services	\$39,497	\$74,796	\$114,293
General Revenues:			
Property Taxes	146,383	0	146,383
State Sources	164,105	0	164,105
Investment Earnings	15,214	885	16,099
Other	20,379	0	20,379
Total Revenues	<u>\$385,578</u>	<u>\$75,681</u>	<u>\$461,259</u>
Functions/Program Expenses:			
General Government	122,289	0	122,289
Public Safety	115,777	0	115,777
Public Works	91,377	0	91,377
Culture and Recreation	17,571	0	17,571
Sewer	0	46,294	46,294
Total Expenses	<u>\$347,014</u>	<u>\$46,294</u>	<u>\$393,308</u>
<u>INCREASE IN NET ASSETS</u>	<u>\$38,564</u>	<u>\$29,387</u>	<u>\$67,951</u>

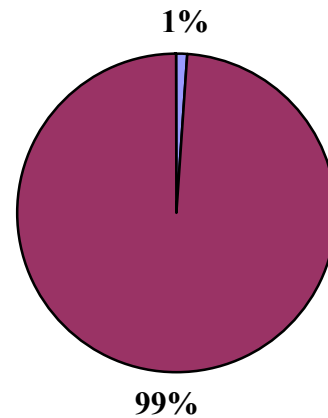
Revenues by Source – Governmental Activities

Total Revenues = \$385,578



Revenues by Source – Business-Type Activities

Total Revenues = \$75,681



VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005

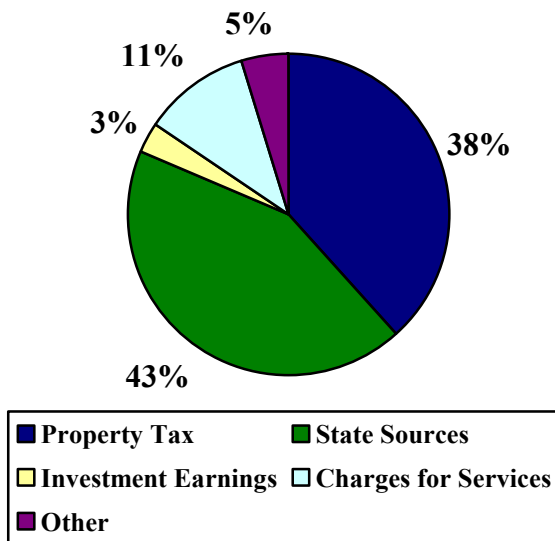
GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2004

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Revenues:			
Program Revenues:			
Charges for Services	\$40,244	\$72,775	\$113,019
General Revenues:			
Property Taxes	145,273	0	145,273
State Sources	163,680	0	163,680
Investment Earnings	12,081	3,366	15,447
Other	18,362	0	18,362
Total Revenues	<u>\$379,640</u>	<u>\$76,141</u>	<u>\$455,781</u>
Functions/Program Expenses:			
General Government	69,731	0	69,731
Public Safety	126,330	0	126,330
Public Works	105,873	0	105,873
Culture and Recreation	10,679	0	10,679
Sewer	0	35,572	35,572
Total Expenses	<u>\$312,613</u>	<u>\$35,572</u>	<u>\$348,185</u>
<u>INCREASE IN NET ASSETS</u>	<u><u>\$67,027</u></u>	<u><u>\$40,569</u></u>	<u><u>\$107,596</u></u>

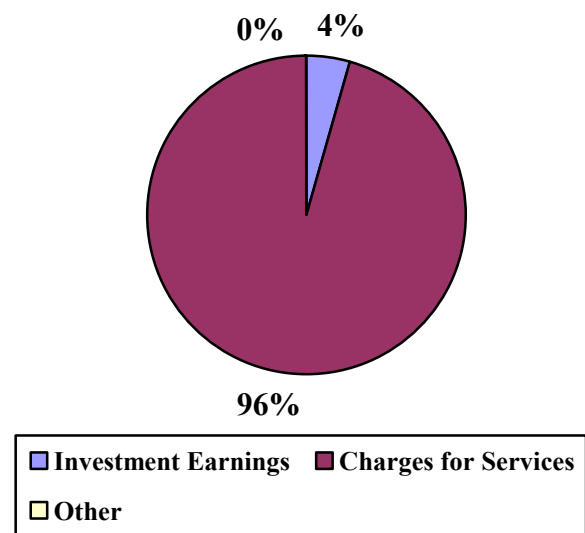
Revenues by Source – Governmental Activities

Total Revenues = \$379,640



Revenues by Source – Business-Type Activities

Total Revenues = \$76,141



VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005

ANALYSIS OF FINANCIAL POSITION

The focus of the Village's funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The Village's general fund is the chief operating fund of the Village. Unreserved fund balance for the general fund increased by \$14,011 during the year. Revenues for the year decreased by \$1,533. Expenditures and other financing uses decreased by \$40,041. The decrease is due to less spending in the current year for equipment.

Major Street Fund

The primary activity of this fund is the general maintenance of major streets in the Village. The most significant activity other than general maintenance expenditures was completing the preliminary engineering for a street resurfacing project scheduled for the summer of 2005. The Village is also a part of the State of Michigan METRO Act Program with the fund allocated to the Village for right-of-way maintenance.

Local Street Fund

The primary activity of this fund is the general maintenance of the Villages local streets.

Sewer Fund

The primary activity of this fund is to provide the Village with sewer services. Repairs and maintenance to the existing sewer mains and lift stations encompass this fund's most significant activity for the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

At the end of the year, the Village had \$1,037,160 invested in land and buildings, furniture and equipment, and vehicles. Of this amount, \$581,183 in depreciation has been taken over the years. We currently have net book value of \$455,977. Total acquisitions for the year were \$5,539 and depreciation expense was \$28,208.

CAPITAL ASSETS AT YEAR END
(NET OF DEPRECIATION)

	Governmental Activities	Business Type Activities	Total
Land	\$0	\$27,426	\$27,426
Building and Improvements	17,032	365,343	382,375
Furniture and Equipment	22,418	9,620	32,038
Vehicles	14,138	0	14,138
<u>TOTAL</u>	<u>\$53,588</u>	<u>\$402,389</u>	<u>\$455,977</u>

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$328,360	\$328,360	\$306,562	0.00%	-6.64%
Expenditures	328,360	328,360	292,551	0.00%	10.91%
<u>TOTAL</u>	<u>\$0</u>	<u>\$0</u>	<u>\$14,011</u>		

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Village approve the original budget for the upcoming year prior to April 1, the start of the year.

		%
Total Revenues Original Budget	\$328,360	
Total Revenues Final Budget	<u>328,360</u>	
<u>(Increase) in Budgeted Revenues</u>	<u>\$0</u>	0.00%

The Village's final, actual general fund revenues differed from final budget by \$(21,798), a variance of (6.64) percent from final budget. The variance is because transfers in were budgeted but never received.

The Village's budget for expenditures changed as follows during the year:

		%
Total Expenditures Original Budget	\$328,360	
Total Expenditures Final Budget	<u>328,360</u>	
<u>(Increase) in Budgeted Expenditures</u>	<u>\$0</u>	0.00%

As indicated above, the Village's actual expenditures were less than final budget by \$35,809, a variance of 10.91 percent from final budget. Expenditures were reduced amidst the uncertainty of reductions in the state revenue sharing.

MAJOR STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

MAJOR STREET FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$52,725	\$52,725	\$59,466	0.00%	12.79%
Expenditures	52,725	52,725	40,614	0.00%	22.97%
<u>TOTAL</u>	<u>\$0</u>	<u>\$0</u>	<u>\$18,852</u>		

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005

MAJOR STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES (Continued)

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Village approve the original budget for the upcoming year prior to April 1, the start of the year.

		%
Total Revenues Original Budget	\$52,725	
Total Revenues Final Budget	<u>52,725</u>	
<u>(Increase) in Budgeted Revenues</u>	<u>\$0</u>	0.00%

The Village's final, actual major street fund revenues differed from final budget by \$6,741, a variance of 12.79 percent from final budget. This variance occurred because of a refund received from the METRO Act.

The Village's budget for expenditures changed as follows during the year:

		%
Total Expenditures Original Budget	\$52,725	
Total Expenditures Final Budget	<u>52,725</u>	
<u>(Increase) in Budgeted Expenditures</u>	<u>\$0</u>	0.00%

As indicated above, the Village's actual expenditures were less than final budget by \$12,111, a variance of 22.97 percent from final budget. Expenses were reduced to allow for an increase in cash for the next years street resurfacing project.

LOCAL STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

LOCAL STREET FUND BUDGET VS. ACTUAL

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$30,800	\$30,800	\$33,051	0.00%	7.31%
Expenditures	<u>30,800</u>	<u>30,800</u>	<u>20,338</u>	0.00%	33.97%
<u>TOTAL</u>	<u>\$0</u>	<u>\$0</u>	<u>\$12,713</u>		

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Village approve the original budget for the upcoming year prior to April 1, the start of the year.

		%
Total Revenues Original Budget	\$30,800	
Total Revenues Final Budget	<u>30,800</u>	
<u>(Increase) in Budgeted Revenues</u>	<u>\$0</u>	0.00%

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005

LOCAL STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES (Continued)

The Village's final, actual local street fund revenues differed from final budget by \$2,251, variance of 7.31 percent from final budget.

The Village's budget for expenditures changed as follows during the year:

		<u>%</u>
Total Expenditures Original Budget	\$30,800	
Total Expenditures Final Budget	<u>30,800</u>	
<u>(Increase) in Budgeted Expenditures</u>	<u>\$0</u>	0.00%

As indicated above, the Village's actual expenditures were less than final budget by \$10,462, a variance of 33.97 percent from final budget. Expenditures were reduced to prepare for the increased expenditures related to the street reconstruction project scheduled for the summer of 2006.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Village's finances. If you have questions about this report or need additional information, contact the Business Office, Village of Vernon.

VILLAGE OF VERNON, MICHIGAN
STATEMENTS OF NET ASSETS
MARCH 31, 2005 AND 2004

	2005			2004
	Governmental	Business-Type		
	Activities	Activities	Total	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash and Cash Equivalents	\$1,065,829	\$356,970	\$1,422,799	\$1,335,048
Accounts Receivable	0	13,768	13,768	13,220
Interest Receivable	4,314	294	4,608	642
Taxes Receivable	0	0	0	251
Internal Balance	2,248	0	2,248	3,633
Total Current Assets	\$1,072,391	\$371,032	\$1,443,423	\$1,352,794
<u>NON-CURRENT ASSETS</u>				
Capital Assets	236,000	801,160	1,037,160	1,031,621
Less: Accumulated Depreciation	(182,412)	(398,771)	(581,183)	(552,975)
Total Noncurrent Assets	\$53,588	\$402,389	\$455,977	\$478,646
<u>TOTAL ASSETS</u>	\$1,125,979	\$773,421	\$1,899,400	\$1,831,440
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	8,512	1,340	9,852	13,067
Accrued Expenses	4,609	0	4,609	0
Internal Balance	0	2,248	2,248	3,633
Total Current Liabilities	\$13,121	\$3,588	\$16,709	\$16,700
<u>NET ASSETS</u>				
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	53,588	402,389	455,977	478,646
Restricted	0	247,575	247,575	223,407
Unrestricted	1,059,270	119,869	1,179,139	1,112,687
<u>TOTAL NET ASSETS</u>	\$1,112,858	\$769,833	\$1,882,691	\$1,814,740

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENTS OF ACTIVITIES
MARCH 31, 2005 AND 2004

	2005						
	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2004
	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Total
<u>FUNCTIONS/PROGRAMS</u>							
Governmental Activities:							
General Government	\$122,289	\$39,497	\$0	(\$82,792)	\$0	(\$82,792)	(29,487)
Public Safety	115,777	0	0	(115,777)	0	(115,777)	(126,330)
Public Works	91,377	0	0	(91,377)	0	(91,377)	(105,873)
Culture and Recreation	17,571	0	0	(17,571)	0	(17,571)	(10,679)
Total Governmental Activities	\$347,014	\$39,497	\$0	(\$307,517)	\$0	(\$307,517)	(\$272,369)
Business-Type Activities:							
Enterprise	46,294	74,796	0	0	28,502	28,502	37,203
<u>TOTALS</u>	<u>\$393,308</u>	<u>\$114,293</u>	<u>\$0</u>	(\$307,517)	\$28,502	(\$279,015)	(\$235,166)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes				146,383	0	146,383	145,273
State Sources				164,105	0	164,105	163,680
Investment Earnings				15,214	885	16,099	15,447
Miscellaneous				20,379	0	20,379	18,362
Total General Revenues				<u>\$346,081</u>	<u>\$885</u>	<u>\$346,966</u>	<u>\$342,762</u>
Change in Net Assets				<u>\$38,564</u>	<u>\$29,387</u>	<u>\$67,951</u>	<u>\$107,596</u>
Net Assets - Beginning				<u>1,074,294</u>	<u>740,446</u>	<u>1,814,740</u>	<u>1,707,144</u>
<u>Net Assets - Ending</u>				<u>\$1,112,858</u>	<u>\$769,833</u>	<u>\$1,882,691</u>	<u>\$1,814,740</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2005

		<u>Special Revenue Funds</u>		
	<u>General</u>	<u>Major</u>	<u>Local</u>	<u>Total</u>
	<u>Fund</u>	<u>Street</u>	<u>Street</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$726,584	\$187,157	\$152,088	\$1,065,829
Interest Receivable	3,714	350	250	4,314
Due from Other Funds	13,675	0	0	13,675
<u>TOTAL ASSETS</u>	<u>\$743,973</u>	<u>\$187,507</u>	<u>\$152,338</u>	<u>\$1,083,818</u>
<u>LIABILITIES</u>				
Accounts Payable	\$4,701	\$3,771	\$40	\$8,512
Accrued Expenses	4,609	0	0	4,609
Due to Other Funds	0	8,390	3,037	11,427
Total Liabilities	\$9,310	\$12,161	\$3,077	\$24,548
<u>FUND BALANCES</u>				
Designated	127,919	0	0	127,919
Unreserved	606,744	175,346	149,261	931,351
Total Fund Balances	\$734,663	\$175,346	\$149,261	\$1,059,270
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$743,973</u>	<u>\$187,507</u>	<u>\$152,338</u>	<u>\$1,083,818</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2005

Total Governmental Fund Balances:	\$1,059,270
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in governmental
funds. The cost of the assets is \$236,000 and the
accumulated depreciation is \$182,412

<u>53,588</u>

TOTAL NET ASSETS -
GOVERNMENTAL ACTIVITIES

<u><u>\$1,112,858</u></u>

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

		Special Revenue Funds		
	General	Major	Local	Total
	Fund	Street	Street	Governmental
		Fund	Fund	Funds
<u>REVENUES</u>				
Taxes	\$146,383	\$0	\$0	\$146,383
State Sources	0	57,071	17,723	74,794
Licenses and Permits	12,625	0	0	12,625
Intergovernmental Revenues	89,311	0	0	89,311
Charges for Service	39,497	0	0	39,497
Fines and Forfeits	1,923	0	0	1,923
Investment Income	10,992	2,395	1,827	15,214
Miscellaneous Revenues	5,831	0	0	5,831
Total Revenues	\$306,562	\$59,466	\$19,550	\$385,578
<u>EXPENDITURES</u>				
Current:				
General Government	115,277	0	0	115,277
Public Safety	68,326	27,113	20,338	115,777
Public Works	91,377	0	0	91,377
Culture and Recreation	17,571	0	0	17,571
Total Expenditures	\$292,551	\$27,113	\$20,338	\$340,002
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	\$14,011	\$32,353	(\$788)	\$45,576
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to Other Funds (Net)	0	(13,501)	13,501	0
Net Change in Fund Balance	\$14,011	\$18,852	\$12,713	\$45,576
<u>FUND BALANCE - BEGINNING</u>	720,652	156,494	136,548	1,013,694
<u>FUND BALANCE - ENDING</u>	\$734,663	\$175,346	\$149,261	\$1,059,270

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2005

Total net change in fund balances - governmental funds	\$45,576
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

(7,012)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

<u>\$38,564</u>

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUND
MARCH 31, 2005

	<u>Enterprise</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$356,970
Accounts Receivable	13,768
Interest Receivable	294
Total Current Assets	<u>\$371,032</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets:	
Land	27,426
Improvements Other than Buildings	744,685
Machinery and Equipment	29,049
Total Capital Assets	<u>\$801,160</u>
Less Accumulated Depreciation	<u>(398,771)</u>
Total Noncurrent Assets	<u>\$402,389</u>
<u>TOTAL ASSETS</u>	\$773,421
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	1,340
Due to Other Funds	2,248
Total Current Liabilities	<u>\$3,588</u>
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets - Net of Related Debt	402,389
Restricted	247,575
Unrestricted	<u>119,869</u>
<u>TOTAL NET ASSETS</u>	<u>\$769,833</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
MARCH 31, 2005

	<u>Enterprise</u>
<u>OPERATING REVENUES</u>	
Base Charge Fees	\$71,295
Delinquency Fees	3,501
Total Operating Revenues	<u>\$74,796</u>
<u>OPERATING EXPENSES</u>	
Maintenance Salaries and Fringes	3,262
Administrative Supplies and Expense	16,354
Repairs and Maintenance	11,020
Depreciation and Amortization	15,658
Total Operating Expenses	<u>\$46,294</u>
Operating Income	<u>\$28,502</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Revenue	885
Change in Net Assets	<u>\$29,387</u>
<u>NET ASSETS - BEGINNING</u>	<u>740,446</u>
<u>NET ASSETS - ENDING</u>	<u><u>\$769,833</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED MARCH 31, 2005

	<u>Enterprise</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash Received from Customers	\$72,620
Cash Payments to Suppliers for Goods and Services	(28,102)
Cash Payments to Employees for Services	(2,969)
Net Cash Provided by Operating Activities	<u>\$41,549</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest on Investments	<u>915</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	\$42,464
<u>BALANCES - BEGINNING OF YEAR</u>	<u>314,506</u>
<u>BALANCES - END OF YEAR</u>	<u>\$356,970</u>
<u>Reconciliation of Operating Income to Net Cash Provided By</u> <u>Operating Activities</u>	
Operating Income	\$28,502
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	15,658
(Increase) Decrease in Assets	
Accounts Receivable	(2,176)
Increase (Decrease) in Liabilities	
Accounts Payable	950
Due to Other Funds	<u>(1,385)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>\$41,549</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

1) REPORTING ENTITY

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. The Village of Vernon's Village Council is the primary government which has oversight responsibility and control over all activities related to sanitation, public improvements, planning and zoning, and general administrative services within the Village. The Village receives funding from local, state and federal government sources and must comply with the accompanying requirements of these funding sources. However, the Village is not included in any other governmental "reporting entity" as defined by GASB pronouncements since the Village Council is a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities. As such, the Village Council has decision making authority, the authority to levy taxes and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Village of Vernon conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the Village's overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the Village's activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Village's functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Village are grouped into the categories governmental and proprietary.

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Village. Revenues are derived primarily from property taxes and state distributions, grants and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

PROPRIETARY FUND

The Village applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Enterprise Fund

This fund is used to account for the operations of the sanitary sewer system which is financed by user charges, and where periodic measurement of net income is appropriate for capital maintenance and management control.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The proprietary fund also uses the accrual basis of accounting.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

The Village reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the Village receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The Village considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) BAD DEBTS

The Village provides an allowance for doubtful accounts equal to the estimated losses that will be incurred in the collection of all receivables. The estimated losses are based on a review of the current status of the existing receivables.

F) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. In accordance with the provisions of GASB 34 the Village has elected to capitalize the cost of government fund infrastructure assets after the implementation date of GASB 34. Prior acquisitions or construction costs of infrastructure assets will not be recorded.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Building and Improvements	15 – 50 Years
Furniture and Equipment	5 – 20 Years
Vehicles	5 Years

G) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

I) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

J) BUDGETS

The Village follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The Village Council prepares a proposed budget on a functional basis using the modified accrual basis for the general and special revenue funds and the accrual basis for its proprietary fund for presentation at a public hearing.
2. A public hearing is held in conjunction with a regular board meeting.
3. The Village Council adopts the budget at a regular board meeting.
4. Excess appropriations at the end of the fiscal year lapse.

Presented budgeted amounts are as originally adopted, or as amended by the Village Council.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the functional level.

4) DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the Village are at one bank in the name of Village of Vernon. Michigan Compiled Laws (MCL), Section 129.91, authorizes a local unit to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bond securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

4) DEPOSITS AND INVESTMENTS (Continued)

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Undeposited Cash – At March 31, 2005, the Village had \$60 of petty cash on hand which is included as part of "cash and cash equivalents."

Deposits - The Village Council authorized the following financial institutions for the deposit of the Village's funds for the year ended March 31, 2005: JPMorgan Chase and Fifth Third Bank.

The Village's deposits are in accordance with statutory authority.

At March 31, 2005, the carrying amount of the Village's deposits was \$1,422,799 and the bank balance was \$1,423,278. \$131,177 of the bank balance was covered by federal depository insurance and \$1,292,101 was uninsured and uncollateralized.

5) RESTRICTED CASH

General Fund:

An account was established to set aside money for the eventual replacement of equipment for the administration, department of public works and the police department. As of March 31, 2005, the balance was \$79,738.

Enterprise Fund:

The general purpose fund, established in 1969 under requirements of the bond issue, is to be used for paying the cost of repairing or replacing any damage to the sewer system which may be caused by any unforeseen catastrophe or for making extensions or improvements to the system. Currently, the general purpose fund is being funded at \$400 per month to provide for the improvement of the sewer system. In addition, the sewer rate increase of \$4 per quarter and delinquent sewer fees collected are transferred to the reserve account. The restricted balance was \$247,575 as of March 31, 2005.

6) DETAILED LISTING OF DESIGNATED FUND BALANCES

A detail description of fund balance designations for the general fund at March 31, 2005 is presented below:

Designated for Equipment Replacement	\$ 79,738
Designated for Park Development	10,690
Designated for Garbage Collection	<u>37,491</u>
<u>TOTAL</u>	<u>\$ 127,919</u>

As a general rule the Village will use undesignated funds before designated funds for any of the previous listed expenses.

7) RESTRICTED NET ASSETS

A description of restricted net assets for the proprietary fund at March 31, 2005 is:

Restricted for Sewer Replacement	<u>\$ 247,575</u>
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As a general rule the Village will use unrestricted net assets before restricted for any expense for sewer replacement.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

8) PROPERTY TAX

The Village levies its property taxes on July 1 and collects its own property taxes until September 14th. The delinquent real property taxes of the Village are purchased by the County of Shiawassee, and delinquent personal property taxes continue to be collected by the Village and recorded as revenue as they are collected. The County sells tax notes, the proceeds to which have been used to pay the Village for these property taxes. These taxes have been recorded as revenue for the current year.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2005, was as follows:

	Balance April 1, 2004	Additions	Deductions	Balance March 31, 2005
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$28,839	\$0	\$0	\$28,839
Furniture and Equipment	144,014	5,539	0	149,553
Vehicles	57,608	0	0	57,608
Totals at Historical Cost	\$230,461	\$5,539	\$0	\$236,000
Less: Accumulated Depreciation				
Buildings and Improvements	(10,799)	(1,008)	0	(11,807)
Furniture and Equipment	(120,178)	(6,957)	0	(127,135)
Vehicles	(38,884)	(4,586)	0	(43,470)
Total Accumulated Depreciation	(\$169,861)	(\$12,551)	\$0	(\$182,412)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$60,600</u>	<u>(\$7,012)</u>	<u>\$0</u>	<u>\$53,588</u>
<u>BUSINESS - TYPE ACTIVITIES</u>				
Land	\$27,426	\$0	\$0	\$27,426
Buildings and Improvements	744,685	0	0	744,685
Furniture and Equipment	29,049	0	0	29,049
Totals at Historical Cost	\$801,160	\$0	\$0	\$801,160
Less: Accumulated Depreciation				
Buildings and Improvements	(364,601)	(14,741)	0	(379,342)
Furniture and Equipment	(18,513)	(916)	0	(19,429)
Total Accumulated Depreciation	(\$383,114)	(\$15,657)	\$0	(\$398,771)
<u>BUSINESS - TYPE ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$418,046</u>	<u>(\$15,657)</u>	<u>\$0</u>	<u>\$402,389</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

	Governmental	Business - Type	TOTAL
General Government	\$ 12,551	\$ 15,657	\$ 28,208

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

10) DEFERRED COMPENSATION (457) PLAN

The Village has adopted a Deferred Compensation Plan under Section 457 of the Internal Revenue Code. Individual employees, at their own discretion and in accordance with federal regulations, can elect to have a portion of their salary withheld and contributed to their individual trust accounts. No contributions are made by the Village.

11) RELATED PARTY

The Village of Vernon bought supplies from a board member's business. The total value of the supplies bought for the year ended March 31, 2005 was \$1,318.

12) OPERATING LEASES – WATER PROJECT

The Village entered into a two year lease on December 17, 2003. The lease requires a \$5,000 non-refundable payment at the beginning of the lease. The lease is for a parcel of land that the Village has the option to buy anytime during the lease for \$150,000. Rent expense for the year was \$0.

13) INTERFUND BALANCES

Interfund balances at March 31, 2005 consisted of the following:

DUE TO	DUE FROM			
	MAJOR	LOCAL		
	STREET	STREET	ENTERPRISE	
	FUND	FUND	FUND	TOTAL
General Fund	\$8,390	\$3,037	\$2,248	\$13,675

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

14) CONTINGENCIES

The Village receives grant funds from federal and state agencies. The grant programs are subject to audits by the granting Village, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Such audits could result in a request for reimbursement by the agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although management expects such amounts to be immaterial.

REQUIRED
SUPPLEMENTARY
INFORMATION

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2005

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
Taxes	\$145,900	\$146,700	\$146,383	(\$317)
Licenses and Permits	11,100	11,100	12,625	1,525
Intergovernmental Revenues	90,500	90,500	89,311	(1,189)
Charges for Service	40,140	40,140	39,497	(643)
Fines and Forfeits	2,350	3,050	1,923	(1,127)
Investment Income	10,000	10,000	10,992	992
Miscellaneous Revenues	1,600	5,043	5,831	788
Total Revenues	\$301,590	\$306,533	\$306,562	\$29
<u>OTHER FINANCING SOURCES</u>				
Transfers From Other Funds	26,770	21,827	0	(21,827)
Total Revenues and Other Financing Sources	\$328,360	\$328,360	\$306,562	(\$21,798)
<u>EXPENDITURES</u>				
General Government	142,725	133,325	115,277	18,048
Public Safety	76,995	77,620	68,326	9,294
Public Works	96,670	104,845	91,377	13,468
Culture and Recreation	11,970	12,570	17,571	(5,001)
Total Expenditures	\$328,360	\$328,360	\$292,551	\$35,809
Excess (Deficiency) of Revenues Over Expenditures	\$0	\$0	\$14,011	\$14,011
<u>FUND BALANCE - BEGINNING</u>			720,652	
<u>FUND BALANCE - ENDING</u>			734,663	

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED MARCH 31, 2005

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
State Sources	\$50,725	\$50,725	\$57,071	\$6,346
Investment Income	2,000	2,000	2,395	395
Total Revenues	<u>\$52,725</u>	<u>\$52,725</u>	<u>\$59,466</u>	<u>\$6,741</u>
<u>EXPENDITURES</u>				
Public Safety	<u>52,725</u>	<u>52,725</u>	<u>27,113</u>	<u>25,612</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$0	\$0	\$32,353	\$32,353
<u>OTHER FINANCING (USES)</u>				
Transfers to Other Funds	<u>0</u>	<u>0</u>	<u>(13,501)</u>	<u>(13,501)</u>
Net Change in Fund Balance	<u>\$0</u>	<u>\$0</u>	<u>\$18,852</u>	<u>\$18,852</u>
<u>FUND BALANCE - BEGINNING</u>			<u>156,494</u>	
<u>FUND BALANCE - ENDING</u>			<u><u>\$175,346</u></u>	

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE YEAR ENDED MARCH 31, 2005

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
State Sources	\$16,000	\$16,000	\$17,723	\$1,723
Investment Income	2,000	2,000	1,827	(173)
Total Revenues	<u>\$18,000</u>	<u>\$18,000</u>	<u>\$19,550</u>	<u>\$1,550</u>
<u>EXPENDITURES</u>				
Public Safety	<u>30,800</u>	<u>30,800</u>	<u>20,338</u>	<u>10,462</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$12,800)	(\$12,800)	(\$788)	\$12,012
<u>OTHER FINANCING SOURCES</u>				
Transfers from Other Funds	<u>12,800</u>	<u>12,800</u>	<u>13,501</u>	<u>701</u>
Net Change in Fund Balance	<u>\$0</u>	<u>\$0</u>	<u>\$12,713</u>	<u>\$12,713</u>
<u>FUND BALANCE - BEGINNING</u>			<u>136,548</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$149,261</u>	

OTHER SUPPLEMENTAL
INFORMATION

VILLAGE OF VERNON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2005

GENERAL GOVERNMENT

Legislative

Legislative and Administrative Wages	\$46,981
Payroll Taxes	3,777
Office Supplies	1,906
Legal and Accounting	3,657
Community Promotion	4,322
Printing and Postage	942
Insurance	16,649
Utilities	3,728
Miscellaneous	2,712
Contracted Services	5,707
Travel	1,660
Seminars	1,899
Capital Outlay	286
Total Legislative	<u>\$94,226</u>

Village Hall and Grounds

Wages	6,075
Payroll Taxes	603
Capital Outlay	1,325
Contracted Services	1,426
Insurance	2,556
Repairs	2,863
Seminars	95
Supplies	934
Utilities	4,097
Total Village Hall and Grounds	<u>\$19,974</u>

Election

Printing	55
Supplies	22
Total Election	<u>\$77</u>

Cemetery Board

	1,000
Total General Government	<u>\$115,277</u>

VILLAGE OF VERNON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2005

PUBLIC SAFETYPolice

Wages	\$42,710
Payroll Taxes	3,336
Capital Outlay	110
Community Promotion	165
Contract Services	1,468
Gasoline and Oil	2,841
Insurance	4,232
Legal Fees	1,383
Miscellaneous	38
Repairs and Maintenance	1,413
Supplies	1,469
Telephone	1,067
Travel	17
Total Police	<u>\$60,249</u>

Building and Zoning

Wages	60
Payroll Taxes	2
Contract Services	7,544
Legal	471
Total Building and Zoning	<u>\$8,077</u>

Total Public Safety \$68,326

PUBLIC WORKSBrush Cleanup

Wages	15,200
Payroll Taxes	1,182
Capital Outlay	33
Supplies and Materials	774
Contract Services	1,151
Insurance	745
Total Brush Cleanup	<u>\$19,085</u>

Street Lighting

Supplies and Materials	549
Utilities	8,503
Repairs	148
Total Street Lighting	<u>\$9,200</u>

Sanitation

Garbage and Waste Collection	23,536
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VILLAGE OF VERNON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2005

PUBLIC WORKS (Continued)

Trees & Services

Supplies and Materials	\$1,165
Contract Services	6,502
Total Trees & Services	<u>\$7,667</u>

Water Project

	260
Contract Services	31,629
Miscellaneous	<u>\$31,889</u>
Total Water Project	

Total Public Works \$91,377

CULTURE AND RECREATION

Parks and Recreation

Wages	1,683
Payroll Taxes	128
Capital Outlay	9,909
Contractual Service	1,820
Insurance	34
Supplies	2,349
Utilities	648
Total Parks and Recreation	<u>\$16,571</u>

Library Board

	<u>1,000</u>
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Total Culture and Recreation \$17,571

TOTAL EXPENDITURES

\$292,551

VILLAGE OF VERNON, MICHIGAN
SPECIAL REVENUE FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2005

	MAJOR STREET	LOCAL STREET	TOTALS
<u>EXPENDITURES</u>			
<u>Street Construction and Maintenance</u>			
Salaries	\$359	\$214	\$573
Payroll Taxes	28	18	46
Contract Services	6,386	0	6,386
Equipment Rental	657	311	968
Auditing	1,800	1,800	3,600
Insurance	18	12	30
Miscellaneous	22	26	48
Supplies	125	0	125
Total Street Construction and Maintenance	\$9,395	\$2,381	\$11,776
<u>Traffic Service</u>			
Salaries	158	0	158
Payroll Taxes	12	0	12
Equipment Rental	132	0	132
Insurance	8	0	8
Maintenance	2,337	2,273	4,610
Total Traffic Service	\$2,647	\$2,273	\$4,920
<u>Winter Maintenance</u>			
Salaries	2,371	903	3,274
Payroll Taxes	188	72	260
Equipment Rental	5,365	1,404	6,769
Insurance	107	38	145
Supplies	676	676	1,352
Total Winter Maintenance	\$8,707	\$3,093	\$11,800
<u>Bridge Maintenance</u>			
Salaries	0	41	41
Payroll Taxes	0	3	3
Equipment Payable	0	22	22
Insurance	0	2	2
Maintenance	40	40	80
Contract Services	0	10,967	10,967
Total Bridge Maintenance	\$40	\$11,075	\$11,115
<u>Drain Maintenance</u>			
Contract Services	5,159	300	5,459
Salaries	363	431	794
Payroll Taxes	28	33	61
Equipment Rental	587	730	1,317
Insurance	19	22	41
Supplies	168	0	168
Total Drain Maintenance	\$6,324	\$1,516	\$7,840
<u>TOTAL EXPENDITURES</u>	<u>\$27,113</u>	<u>\$20,338</u>	<u>\$47,451</u>

VILLAGE OF VERNON, MICHIGAN
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS -
CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED MARCH 31, 2005

<u>CASH BALANCE - APRIL 1, 2004</u>	\$100
 <u>RECEIPTS</u>	
Current Property Taxes, 2003 Levy	146,805
Delinquent Sewer Fees Added to 2003 Levy	11,471
Lawn care and Sidewalk Assessment	1,958
Garbage Assessment	26,962
Total Taxes	<u>\$187,196</u>
Interest Earned	<u>407</u>
Total Cash Receipts	<u>\$187,603</u>
 <u>DISBURSEMENTS</u>	
Distribution of Collections to General Fund	<u>187,571</u>
 <u>CASH BALANCE - MARCH 31, 2005</u>	 <u><u>\$132</u></u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

June 30, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Village Council
Village of Vernon, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of and for the year ended March 31, 2005, which collectively comprise the Village of Vernon's basic financial statements and have issued our report thereon dated June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Vernon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Vernon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Village of Vernon, in a separate letter dated June 30, 2005.

This report is intended for the information of the finance committee, management and federal awarding agencies and pass-through entities and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf P.C.
LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

June 30, 2005

To the Village Council of
Village of Vernon

In planning and performing our audit of the financial statements of Village of Vernon for the year ended March 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Village of Vernon's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2005, Village of Vernon incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

2. Segregation of Duties

Currently the Treasurer inputs checks received into a daily log, prepares the deposit ticket and takes the deposit to the bank. We would recommend that the clerk or deputy clerk open the mail and record the deposits into the log and then the one not opening the mail posts the receipts into the system.

FUTURE ISSUES

1. GASB #40

GASB Statement #40 is effective for financial statements for periods beginning after June 15, 2004. The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. This statement requires a brief description of the deposit or investment policies that are related to the risks that GASB 40 requires to be disclosed, including Custodial Credit Risk, Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk.

Although GASB 40 does not specifically require an Investment Policy, governmental units will certainly want to consider adopting an updated policy. You will need to disclose in your annual audit footnotes:

- * the governmental units investment policy for any specific type of risk to which the governmental unit is exposed, or
- * the fact that the governmental unit has no investment policy that addresses the specific type of risk to which the governmental unit is exposed.



Village of Vernon

Page 2

June 30, 2005

2. GASB #45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Village of Vernon, the effective implementation date must begin by March 31, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The Village may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Village of Vernon’s Village Council and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lewis & Knopf PC
LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS